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INFO RUCNRAQ/IRAQ COLLECTIVE PRIORITY

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S E C R E T SECTION 01 OF 03 BAGHDAD 002116

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TAGS: ECON ENRG EPET PGOV PREL TU SY IZ

SUBJECT: WHERE WE STAND ON CRUDE EXPORTS, ELECTRICITY AND

FUEL: SOMEWHAT LESS DARK, BUT VERY LITTLE TO COOK WITH

Classified By: Economic Minister Counselor Tom Delare, for reasons 1.4
(b) and (d).

¶1. (C) Summary: Baghdad's hours of power increased in June to an average of 8-9 hours per day, up from 4-5 a month ago. Improvements are attributable to more focused security and the return to service of several power plants that had been down for maintenance or other reasons. Crude exports are also holding steady at an average of just under 1.6 million bpd in the south, and the old 40" northern export pipeline has returned to service after more than 10 months of interruption. Gasoline and, in particular, LPG (cooking gas) remain in short supply. LPG supplies for Baghdad may drop to some 500 tons/per day July 7, far below daily consumption of about 1500 tons, if the southern LPG plant goes off-line for 2 1/2 weeks for upgrades. MoO plans to increase imports to compensate. End Summary.

Brighter

¶2. (S) Electricity hours of power (HoP) jumped from four or five hours per day in Baghdad in April and May back up to, on average, eight to nine in June - despite the interdiction June 12 of Bayji-Baghdad West #2 line, which took down several towers at once (repair date remains TBD). A recent break on Bayji-Baghdad West #1, however, was fixed in one day. The timeliness of this repair is attributable to a combination of political will in the person of Minister of Electricity Karim, and implementation of the Power Line Security Plan, which is coming into effect in June. The plan focuses on protecting Bayji-Baghdad West #1, ensuring that electricity flows from the Bayji thermal plant to Baghdad. It also augments protection of the plant itself. The plan utilizes Iraqi Police (out of Tikrit), National Police, the 4th and 9th Iraqi Army Divisions (IADs) and Strategic Infrastructure Battalions (SIBs). Extra forces are focused on "hotspots" such as Samarra and mobile troops patrol the more deserted stretches. Coalition forces provide air surveillance and MoE ensures that repair teams are readily available. Berms will go up around the bases of towers and, in the areas of highest threat, these forces will implement exclusion zones.

¶3. (SBU) The ability to reliably transfer power from the north is critical, particularly in summer. At one point in May, the Bayji refinery (which produces a large portion of Iraq's refined products) was partially shut down because of the build-up of HFO or heavy fuel oil (a by-product of the refinery process). Because the power lines were down, the Bayji thermal plant, which burns HFO for fuel, had to slow down. The unused HFO accumulated until, without any place to store it and only limited capacity to export it, the refinery too had to slow down, reducing, in turn, the supply of

refined oil products until the power lines came back up. Minister Shahristani's cancellation of several HFO contracts caused refining at Bayji to slow again in early June. New contracts to export HFO to Syria and Turkey were to go into effect o/a June 19.

Not Much Better on Fuel

¶4. (SBU) In Baghdad as of June 19, there are almost 19 days of supply (DoS) of diesel and 88 days supply of kerosene on hand. Gasoline supplies in the capitol have dropped from five days to less than one June 14, reflecting in part limited imports from Turkey, as well as the refinery slowdown at Bayji. Across the country, gasoline and LPG are in short supply; Basrah is doing the best with some 13 DoS of LPG on hand and five DoS of gasoline.

¶5. (SBU) Black market prices and waiting times reflect the shortages. In Diwaniyah, Najaf, Karbala and Hilla June 19, consumers wait eight to nine hours for fuel at state-owned service stations with subsidized prices, and two at private stations. In Hillah, gasoline is selling for about \$2.50/gallon and \$1.52/gallon in Diwaniyah and Najaf. The price in Irbil is \$2.66/gallon. Diesel was fairly constant across south central Iraq at \$1.77/gallon, with only four DoS supply on hand. LPG prices range from \$2.66/12kg cylinder in Diwaniyah, to \$11.00/12kg cylinder in Irbil, and over \$13.00/12kg cylinder in Najaf. (Note: As of June 19, gasoline prices were still pegged at most stations at approximately \$0.28/gal for regular and \$0.68/gal for premium, although in fact, stations sell a mid-grade mix set between those two prices.

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¶6. (C) The Director General of the State Oil Marketing Organization (SOMO) Dr. Falah al-Amri, blamed (then) Deputy Prime Minister Chalabi for much of the shortage, as Chalabi refused to fund SOMO's letters of credit for May, pending Chalabi's personal examination of each contract (NOTE: The GOI contracts committee, of which Chalabi was the head, must approve all contracts over \$3 million. End Note). Falah asserted, however, that Chalabi had held the contracts for over two months, in an effort to retain control for his personal benefit, slowing the entire system. The L/Cs were funded only after Minister of Oil Shahristani went to the Prime Minister, who broke the deadlock at the end of May. Turkish imports, already disrupted by roadwork at the Habur Gate, suffered: the number of trucks only started to climb over 100 per day in the middle of June. Iraq remains under budget for imports.

Crude, However, Looks Good

¶7. (SBU) After the weather- and equipment-related problems of the winter months, Iraq is keeping pace in June with the 1.57 million bpd average of May. The old 40" crude line came back into service June 10, and is now transferring some 300,000 bpd of crude north to Turkey. As of June 16, some 3.5 million barrels was in storage at Ceyhan. Due to the fragile state of the line and continued risk of pressure breaks, the flow rate is limited. These are the first substantial exports through the north in the last ten months. MoO has circulated a request for tenders, with replies due June 23rd, for 6.0 million barrels at Ceyhan.

But What To Do About Syria?

¶8. (C) Iraq has quietly renewed crude oil exports totaling some 15,000 bpd to Syria via a small pipeline, reportedly

somewhat to the north of the defunct 26" export line. SOMO DG al-Amri told us that a committee set up by (then) Deputy Prime Minister Ahmed Chalabi in the Ministry of Finance (NOTE: Chalabi was also acting Minister of Finance for several months this spring. END NOTE) arranged to barter the crude for unspecified imports, including imports of refined products. A number of committee members were brought in from outside MoF at Chalabi's behest, according to Dr. Falah. As the deal is barter of Iraqi crude for an unspecified amount of (reportedly) refined products, none of the approximately \$800,000 (value is the 15,000 bpd were sold) is apparently going in to the Development Fund for Iraq (DFI).

But Still Little to Cook With

¶ 9. (SBU) Iraq has been operating virtually hand-to-mouth for LPG since early in the year: one damaged and a second poorly operating compressor in Daura have limited LPG production there to 10 tons per day; the northern LPG plant produces approximately 500 tons/day, but Bayji refinery is currently producing zero. This leaves Basrah to carry the lion's share of the burden of supplying Iraqis with cooking gas - the LPG plant there sends 1000 tons/day (out of the 1100 it produces) to Baghdad to meet the capital's demand of 1500 tons/day. Iraq is already importing LPG. Syria and Kuwait (where a major refinery is down for maintenance) reportedly have none to sell, and Iranian supplies are unreliable (a combination of high sulfur LPG and faulty bottling have caused a number of explosions in households across Iraq). Basrah port is reportedly operating at capacity and cannot physically accommodate more LPG imports by ship.

¶ 10. (C) MoO Deputy Minister Ahmed al-Shamaa told us June 15 that an Iraqi delegation currently in Turkey attempting to purchase an extra 1000 tons of LPG per day (NOTE: To be trucked in through Habur Gate. END NOTE) was able to secure only 750 tons of daily shipments. In addition to the physical limits of the crossing, however, is the bigger problem of the northern areas that are also short of LPG. Although there reports that Kurdistan is importing LPG from Iran, black market prices remain high and the shortage, like in Baghdad, is acute. It is likely that little of any LPG imported from Turkey will make it to the south, regardless of any orders to the contrary from MoO, SOMO or anybody else. A train with nine LPG tankers destined for Baghdad over a month ago is stuck just outside Bayji, as the locals threaten to blow it up if the train tries to leave with "their" LPG.

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¶ 11. (C) The already grave LPG situation could worsen when the southern LPG plant goes down in July for long-overdue maintenance and upgrades. MoO has delayed the closure from July 1 to July 7 to allow SOMO more time to procure imports and for stocks in Baghdad to accumulate. Once completely refurbished, the plant will produce some 3000 tons/days of LPG, allowing Iraq to fully supply domestic consumption. The Ministry of Oil is limiting the shutdown to 17 days for a partial refurbishing, although at a cost of bringing the improved system back on line more slowly to its new capacity of 3000.
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